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6 July 1957

MEMORANDUM FOR: Deputy Director, Intelligence

SUBJECT: Briefing Guide for Meeting of CFFP Subcommittee to Study Policy on United States Trade with Communist China (Williams Committee).

1. The primary function of the Williams Committee is to redraft the principal policy statement in paragraph 8 of HSC 5704/1.

"8. So long as it is considered to be in the U. S. interest, there should continue to be applied against Communist China more severe controls than are applied against the remainder of the Soviet Bloc. At such time as it is judged to be in the U. S. interest to do so, the controls toward Communist China should be revised."

2. Subsequent to the draft of such a text it will be necessary for the subject committee to amend or accept the underlined references in the "Courses of Action" paragraphs of HSC 5704/1 number 11 and 12

"11. Maintain toward the European Soviet bloc U. S. export controls over multilaterally agreed items and over such other materials, equipment, technology and services as can be so unilaterally controlled by the United States as to achieve a worthwhile adverse impact on the war potential of the European Soviet bloc, or can effectively serve other U.S. policy objectives judged by the U. S. control authorities to warrant the use of unilateral controls; and take all appropriate measures as will effectively enforce these controls and prevent their frustration."

"12. Approve, as a general rule, for shipment from the United States to the European Soviet bloc, commodities not controlled under paragraph 11 above, and, where appropriate, remove the requirement of specific licenses for such shipments to the entire European Soviet bloc."

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and to redraft consent with revisions of paragraph 8 the present paragraph 20

"20. Maintain the current level of U. S. unilateral export, import and financial controls applied against Communist China."

3. The Executive Committee of EDAC has been engaged in the preparation of a revised draft of the other paragraphs of NSC 5704/1. (EDAC D-135, 26 June 1957). A draft of all paragraphs except number 21 and those to be done by the Williams Committee is attached as Tab A. The Department of State was asked by Mr. Randall to draft paragraph 21 and to clear it with EDAC. State has not yet been able to prepare an internally agreed draft of this paragraph. Once Mr. Robertson returns to work, the various views will be crystallized and the paper will then move to higher echelons for a decision. A final draft of this paragraph will probably not be ready before 12 July 1957.

4. The essential question before the Williams Committee is the determination of domestic (U. S.) levels of control to be exercised against Communist China. The question is a very difficult and vexing one as the level of membership on this committee addressed to the problem indicates. The request to consider the degree of control "from the standpoint of: a) defense, b) political, c) economic/industrial, d) psychological factors" is designed to reinforce the gravity of the question as much as to provide a framework for analysis.

5. You will recall that all COCOM-CHINCOM countries save the U. S., Canada, Japan and Turkey have placed trade with China on the same footing as trade with the European Soviet Bloc. Both Canada and Japan are expected to follow this lead shortly. CHINCOM is presently engaged in a negotiation to establish separate quotas for China under IL II for the remainder of 1957. The question then is, shall the U. S. continue to embargo all shipments to Communist China in face of this action? It should be noted parenthetically that the U. S. does in fact maintain a considerably more rigid set of controls against the European-Soviet Bloc than the level applied by COCOM.

6. The application of unilateral U. S. controls against Communist China accounts for about \$90,000,000 of a total estimated impact on China of some \$190,000,000 for the combined U. S. controls and the now defunct China special controls. (CIA/RR IM-452). No Western goods have been effectively denied China which were not simultaneously denied to the Soviet Bloc hitherto, because the European Soviet Bloc could purchase goods forbidden to China and transship these goods. Rigorous attempts to prevent

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such transshipment were seldom even partially successful. Communist China for internal strategic reasons as well as for reasons of the existence of Western controls has concentrated its domestic industrialization program in those areas where strategic controls have sought to limit exports.

7. Essentially the U. S. in determining its policy must weigh the benefits of additional trade outlets, of opportunity for limited trade contacts in China, and of additional flexibility in the eyes of certain neutrals and Western Allies against the impact of such action on our Far Eastern Allies, the limited additions it would provide for Communist China's industrial development program, and the necessary rearrangement implied in our heretofore complete isolation of the Chinese mainland. (CA-10548, 12 June 1957; and RFE 100-55). Parenthetically the Department of Commerce has recently appeared to be entertaining the notion of relaxation in U. S. China trade controls, probably more from a desire to insert U. S. interests and frustrate certain Western European hopes for increased trade in this area than from a basic desire to reduce the general levels of export controls.

8. I will mention only briefly the Defense suggestion cited in paragraph 5 of the attachment from Mr. Williams because we plan in the near future to present a comment on the Defense proposal to the REC. Certain pressures may be reasonably exercised by Defense through the NATO structure, pressure of a sort to urge allied military organizations to make a more forceful presentation of the necessity of strategic trade controls to their cabinets and other political leaders. It is likely, however, that this avenue has been tried before and that such pressures by military leaders in Western Europe have been far less persuasive than they have been in the U. S. Pressure in the form of invoking the Battle Act and the Trading with the Enemy Act are more drastic. (Deny American aid shipments or American exports of critical materials.) They have been proposed on several previous occasions and have never been invoked, probably because of the risk of alienating Western Allies. It would seem important at present to continue to review the possibility of application of such sanctions if only to secure the perspective in which the strengthening of export controls is weighed against the military forces furnished by Western Europe and the presentation of a solid alliance in that area ready to defend the area against the European Soviet power complex.

9. The Department of Defense seems to overemphasize the degree of effectiveness of the International List Controls. While everyone agrees they may have some minor marginal impact, no one would appear to claim that they have retarded the achievement of the force levels which would have been established in the Sino-Soviet Bloc even in the absence of controls.

The Department of Defense agrees, indeed provided the intelligence, that Soviet military industry has operated at a level substantially below its capacity. (Paragraph 102 of NIE 11-3-55). The imports potentially available from relaxation of economic controls would permit at best only a small expansion of the civilian economy and war related production.

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Attachment:

Draft Policy Proposal